

**TOWN OF WELLESLEY
CONTRIBUTORY RETIREMENT SYSTEM**

Actuarial Valuation Report

January 1, 2004

TABLE OF CONTENTS

	<u>Page</u>
REPORT SUMMARY	
Highlights	1
Introduction	2
Actuarial Experience	3
 ACTUARIAL COSTS AND LIABILITIES	
Normal Costs	4
Present Value of Actuarial Accrued Liabilities	5
Present Value of Future Benefits	6
 FUNDED STATUS AND APPROPRIATIONS	
Market Value of Plan Assets	7
Actuarial Value of Assets	8
Unfunded Actuarial Accrued Liabilities	9
Appropriations	10
Appropriation Forecast	11
GAS No. 25 and GAS No. 27	13
PERAC Annual Statement	14
 EXHIBITS	
1 Age/Service Distribution with Salary	16
2 Retiree Distribution	17
3 Disabled Retiree Distribution	18
4 Distribution Forecast	19
5 Summary of Plan Provisions	20
6 Actuarial Methods and Assumptions	27
7 Glossary of Terms	31
 CERTIFICATION	33
 BREAKOUTS	34

Report Summary:

<u>Highlights</u>	<u>January 1, 2003</u>	<u>January 1, 2004</u>
<u>Contributions</u>		
Funding Schedule FY 2005	\$0	\$0
Funding Schedule FY 2006	572,288	0
<u>Funded Ratios</u>		
GAS No. 25	103.7%	103.5%
<u>Participants</u>		
Actives	600	595
Inactives	179	163
Retirees and Beneficiaries	393	388
Disabilities	<u>26</u>	<u>26</u>
Total	1,198	1,172
<u>Payroll</u>		
Payroll of Active Members	\$22,572,703	\$23,172,848
Average Payroll	37,621	38,946
<u>Normal Cost</u>		
Employer	1,451,528	1,186,524
Employee	1,863,619	1,881,232
Administrative Expenses	<u>175,000</u>	<u>150,000</u>
Total	3,490,147	3,217,756
<u>Actuarial Accrued Liabilities</u>		
Actives	46,228,747	45,439,531
Retirees, Beneficiaries, Disabilities and Inactives	<u>68,582,279</u>	<u>67,406,628</u>
Total	114,811,026	112,846,159
<u>Actuarial Value of Assets</u>	<u>119,033,662</u>	<u>116,792,365</u>
<u>Unfunded Actuarial Accrued Liabilities</u>	(\$4,222,637)	(\$3,946,206)
<u>Non - Contributory Actuarial Accrued Liabilities</u>	\$505,842	\$463,824

Introduction

This report presents the Town of Wellesley actuarial valuation findings as of January 1, 2004, under the Commonwealth of Massachusetts Retirement System.

The actuarial valuation is based on:

- Provisions Chapter 32 of the Massachusetts General Laws, "M.G.L", as of January 1, 2004.
- Employee data provided by the Retirement Board
- Asset information reported to the Public Employee Retirement Administration Commission by the Town of Wellesley Contributory Retirement System
- Actuarial assumptions approved by the Retirement Board

The valuation and appropriation forecast are prepared in accordance with Chapter 32 of the M.G.L. as of January 1, 2004.

The valuation and forecast do not account for:

- Any subsequent changes in the law
- Chapter 32 of the M.G.L., Section 3(8)(c) transfers between systems
- State-mandated benefits
- Cost-of-living increases granted to retired members between 1982 and 1997. The cost of these benefits has been assumed by the State under Proposition Two and One-Half.

Actuarial Experience

In performing the actuarial valuation, various assumptions are made regarding such factors as mortality, retirement, disability, and withdrawal rates as well as both payroll, salary increases, and investment returns. A comparison of the current valuation and the prior valuation is made to determine how closely actual experience corresponded to anticipated occurrences. This analysis of the system provides insight into the overall quality of the actuarial assumptions and helps explain any change in the annual appropriation.

During the past year since the last actuarial valuation, the total required appropriation has remained at \$0 for FY05, and decreased to \$0 for FYE06. The plan realized gains as a result of net favorable actuarial experience during the preceding years. The primary component of the favorable experience was an annual investment return greater than the 7.00% assumption. All actuarial assumptions remained the same as the 2003 actuarial valuation, except for investment return which was changed from 7% to 7.5%.

Actuarial Costs and Liabilities:

Normal Costs

The normal cost is the sum of the individual normal costs determined for each member as if the assumptions underlying the cost determinations had been exactly realized. An individual normal cost represents that part of the cost of a member's future benefits which are assigned to the current year as if the costs are to remain level as a percentage of the member's pay. Benefits payable under all circumstances (i.e., retirement, death, disability, and terminations) are included in this calculation. Anticipated employee contributions to be made during the year are subtracted from the total normal cost to determine employer normal cost. The total normal cost is divided by total payroll to determine the normal cost as a percent of pay. The normal cost is shown in Table I.

Table I

	<u>January 1, 2003</u>	<u>January 1, 2004</u>
Superannuation	\$2,336,965	\$2,132,696
Death	161,708	150,231
Disability	481,892	461,185
Terminations	334,582	323,644
Administrative Expenses	<u>175,000</u>	<u>150,000</u>
Total Normal Cost	3,490,147	3,217,756
% of Pay	15.5%	13.9%
Employee Contributions	1,863,619	1,881,232
% of Pay	8.3%	8.1%
Employer Normal Cost	\$1,626,528	\$1,336,524
% of Pay	7.2%	5.8%

Present Value of Actuarial Accrued Liabilities

The actuarial accrued liabilities (AAL) represents today's value of all benefits earned by the actives and inactive. The AAL can be compared to the assets to determine the funded status of the Plan. The value of these earned benefits is shown in Table II below.

	<u>January 1, 2003</u>	<u>January 1, 2004</u>
Table II		
Actives		
Superannuations	\$43,096,289	\$42,401,510
Death	1,248,620	\$1,215,845
Disability	2,742,122	\$2,678,166
Terminations	(858,284)	(\$855,990)
Retirees and Inactives		
Retirees	60,705,937	58,939,998
Disabled Retirees	6,867,105	7,291,502
Inactives	<u>1,009,237</u>	<u>1,175,128</u>
Total	\$114,811,026	\$112,846,159

Present Value of Future Benefits

The present value of future benefits represents today's value of all benefits earned by the inactivees as well as all benefits earned and expected to be earned in the coming years by the activees. The difference between the present value of future benefits and the present value of actuarial accrued liabilities is the value of benefits to be earned in the coming years. The value of the total expected benefits is shown in Table III.

Table III

	<u>January 1, 2003</u>	<u>January 1, 2004</u>
Activees		
Superannuation	\$63,607,813	\$61,311,219
Death	2,662,702	2,549,064
Disability	7,061,072	6,866,339
Terminations	2,341,221	2,242,771
Retirees and Inactivees		
Retirees	60,705,937	58,939,998
Disabled Retirees	6,867,105	7,291,502
Inactivees	<u>1,009,237</u>	<u>1,175,128</u>
Total	\$144,255,087	\$140,376,021

Funded Status and Appropriations:

Market Value of Plan Assets

The trust fund composition on a market value basis is shown in Table IV.

Table IV

	<u>January 1, 2003</u>	<u>January 1, 2004</u>
Cash equivalents	179,956	\$52,357
Short term investments	7,577,424	143,668
Fixed income securities	33,907,362	29,952,643
Equities	51,257,546	70,235,015
International	11,350,212	16,211,525
Real Estate	0	0
Venture Capital	0	0
Other	0	6,661
Accounts receivable	921,258	619,450
Accounts payable	(5,922,889)	(676,862)
Accrued income	<u>350,500</u>	<u>247,908</u>
Total Market Value	\$99,621,370	\$116,792,365
Total Actuarial Value	\$119,033,662	\$116,792,365

Actuarial Value of Assets

The actuarial value of assets is usually determined by projecting the actuarial value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (7.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a three year period. This preliminary actuarial value is not allowed to differ from the market value of assets by more than 20%. However, the actuarial value of assets as of January 1, 2004 has been given a fresh start and is presented in Table V.

	<u>January 1, 2004</u>
(1) Market value at January 1, 2003	\$99,621,370
(2) 2003 Contributions	\$2,344,920
(3) 2003 Benefit Payments	(\$7,962,360)
(4) Net interest adjustment at 7.0% on (1), (2), and (3) to December 31, 2003	\$6,776,885
(5) Expected market value on January 1, 2004	\$100,780,815
(1) + (2) + (3) + (4)	
(6) Actual market value on January 1, 2004	\$116,792,365
(7) 2003 (Gain) / Loss	N/A
(8) 2/3rd of 2003 (Gain) / Loss	N/A
(9) 2002 (Gain) / Loss	N/A
(10) 1/3rd of 2002 (Gain) / Loss	N/A
(11) Actuarial value on January 1, 2004, (6) + (8) + (10)	\$116,792,365
(12) but not less than 80% nor greater than 120% of (6)	\$116,792,365
Ratio of actuarial value to market value	100.00%

Unfunded Actuarial Accrued Liabilities

Under the Entry Age Normal Actuarial Cost Method, the Actuarial Accrued Liability represents what the accumulated assets would have been as of the valuation date if:

- current plan provisions and assumptions had always been in effect,
- experience conformed exactly to assumptions, and
- the normal cost had been contributed each year since inception.

The actuarial value of the Fund's assets as of the end of the prior year are subtracted from the Actuarial Accrued Liability (AAL) to determine the Unfunded Actuarial Accrued Liability (UAAL) as of the valuation date. Over time, annual pension contributions will accumulate Plan assets equal to the AAL, and the UAAL will be eliminated. Thereafter, annual contributions equal to the normal cost will keep the Plan's assets and liabilities in balance. The UAAL is developed in Table VI.

Table VI

	<u>January 1, 2003</u>	<u>January 1, 2004</u>
Actuarial Accrued Liability	\$114,811,026	\$112,846,159
Actuarial Assets	<u>119,033,662</u>	<u>116,792,365</u>
Unfunded Actuarial Accrued Liability	(\$4,222,637)	(\$3,946,206)
Funded Status	103.7%	103.5%

Appropriations

The pension appropriation for the upcoming fiscal years have been calculated in accordance with the requirements set forth in Section 22D of Chapter 32 of the Massachusetts General Laws. These amounts were calculated to comply with the June 30, 2028, full funding mandate for all accrued liabilities. The pension appropriation is the sum of the:

- Employer normal cost,
- Increasing amortization of the unfunded actuarial accrued liability by June 30, 2008
\$ (3,946,206) over 3 years
- Interest adjustment for payments deposited at the beginning of the fiscal year.

The pension appropriation is shown in Table VII.

Table VII

	<u>January 1, 2003</u>	<u>January 1, 2004</u>
Normal cost	\$1,626,528	\$1,336,524
Amortization payment of the accrued liability	(1,626,528)	(1,336,524)
Total cost	\$0	(\$0)
% of Pay	0.0%	0.0%
Fiscal 2005 cost	\$0	\$0
Fiscal 2006 cost	\$572,288	\$0
Fiscal 2007 cost	\$1,846,323	\$0

Appropriation Forecast

The following exhibit forecasts employer and employee contributions over the next 32 years under the adopted funding schedule.

Note that the forecast is based upon an "open group" method. This method assumes that sufficient employees will be hired each year to keep the number constant. The total payroll of the system is expected to increase 4.5% per year. The employee contribution rate is expected to increase to 10.5% by 2028 as members contributing base percentages 5%, 7%, and 8% are replaced by new members, whose base contribution is 9%. Payments are assumed to be made at the beginning of the year.

The resulting costs for the employer include a normal cost increase of approximately 2.5% per year including all administrative expenses and amortization of the various unfunded liabilities by June 30, 2028. Currently the employer cost is projected to be \$0 for the next 3 years. The total cost increase in 2008 represents on average about 5.1% of payroll, increasing (approximately) by a further 0.5% in 2009 and decreasing to 3.5% in 2036. The decrease in the cost as a percentage of payroll is a result of the increase in member deductions.

P:\Acctl\Wellesley\Val04\Val2_Black.xls\Approp. Results

Appropriation Forecast - 7.5% interest, Fresh start assets
(amounts in thousands)

Fiscal Year Ending	Employee Payroll*	Employee Contribution	Employer Normal Cost with Interest	Amortization Payments with Interest	Employer Total Cost with Interest	Employer Total Cost % of Payroll	Funded Ratio %**
2005	\$23,173	\$1,881	\$1,386	(\$1,386)	\$0	0.0	103.5
2006	24,216	1,991	1,422	(1,422)	0	0.0	102.4
2007	25,305	2,107	1,459	(1,459)	0	0.0	101.3
2008	26,444	2,229	1,496	(150)	1,347	5.1	100.1
2009	27,634	2,358	1,534	0	1,534	5.6	100.0
2010	28,878	2,494	1,572	0	1,572	5.4	100.0
2011	30,177	2,637	1,610	0	1,610	5.3	100.0
2012	31,535	2,789	1,649	0	1,649	5.2	100.0
2013	32,954	2,948	1,688	0	1,688	5.1	100.0
2014	34,437	3,117	1,727	0	1,727	5.0	100.0
2015	35,987	3,294	1,766	0	1,766	4.9	100.0
2016	37,606	3,481	1,805	0	1,805	4.8	100.0
2017	39,298	3,679	1,844	0	1,844	4.7	100.0
2018	41,067	3,887	1,883	0	1,883	4.6	100.0
2019	42,915	4,106	1,921	0	1,921	4.5	100.0
2020	44,846	4,337	1,960	0	1,960	4.4	100.0
2021	46,864	4,581	1,997	0	1,997	4.3	100.0
2022	48,973	4,838	2,035	0	2,035	4.2	100.0
2023	51,177	5,109	2,071	0	2,071	4.0	100.0
2024	53,480	5,394	2,107	0	2,107	3.9	100.0
2025	55,886	5,694	2,142	0	2,142	3.8	100.0
2026	58,401	6,011	2,176	0	2,176	3.7	100.0
2027	61,029	6,345	2,208	0	2,208	3.6	100.0
2028	63,776	6,696	2,239	0	2,239	3.5	100.0
2029	66,645	6,998	2,340	0	2,340	3.5	100.0
2030	69,644	7,313	2,445	0	2,445	3.5	100.0
2031	72,778	7,642	2,555	0	2,555	3.5	100.0
2032	76,054	7,986	2,670	0	2,670	3.5	100.0
2033	79,476	8,345	2,790	0	2,790	3.5	100.0
2034	83,052	8,720	2,916	0	2,916	3.5	100.0
2035	86,790	9,113	3,047	0	3,047	3.5	100.0
2036	90,695	9,523	3,184	0	3,184	3.5	100.0

* Calendar basis

** As of beginning of the Fiscal Year

GAS No. 25 and GAS No. 27

Effective for periods beginning after June 15, 1997, the Governmental Accounting Standards Board (GASB) requires the disclosure of pension related liabilities for public employer financial statements in accordance with Statements 25 and 27. These statements, which replace GASB Statement No. 5, must be adhered to by any public employee retirement system that follows Generally Accepted Accounting Principles (GAAP).

These disclosures are intended to establish a reporting framework that distinguishes between:

- current financial information about plan assets and financial activities,
- actuarially determined information from a long-term perspective,
- the funded status of the plan, and
- progress being made in accumulating sufficient assets to pay benefits when due.

Footnote disclosures required by GASB Statement No. 25 and 27 include a description of the plan, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations. As a result of the oversight of the Public Employees Retirement Administration Commission (PERAC) and the conversion of unpaid contributions to pension related debt, the Net Pension Obligation (NPO) as required by Statement No. 27 will effectively always be equal to \$0. The required disclosure information is shown in Table VIII.

Table VIII

	<u>January 1, 2003</u>	<u>January 1, 2004</u>
(1) Actuarial Accrued Liability	\$114,811,026	\$112,846,159
(2) Actuarial Value of Assets	<u>119,033,662</u>	<u>116,792,365</u>
(3) Unfunded Actuarial Accrued Liability	(4,222,637)	(3,946,206)
(4) Funded Ratio (2)/(1)	103.7%	103.5%
(5) Covered Payroll	\$22,572,703	\$23,172,848
(6) UAAL as a percentage of payroll: (3)/(5)	-18.7%	-17.0%
(7) Annual Required Contribution (ARC)	\$0	\$0
(8) Net Pension Obligation	\$0	\$0

PERAC Annual Statement
APPENDIX PAGE 3
ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Mellon Human Resources & Investor Solutions as of January 1, 2004.

The normal cost for employees on that date was:	\$1,881,232	8.1% of pay
The normal cost for the employer was:	1,186,524	5.1% of pay
The actuarial liability for active members was:		\$45,439,531
The actuarial liability for retired members was:		67,406,628
Total actuarial accrued liability:		112,846,159
System assets as of that date:		116,792,365
Unfunded actuarial accrued liability:		(\$3,946,206)
The ratio of system's assets to total actuarial liability was		103.5%

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.5%
Rate of Salary Increase:	4.0%

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a percent of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
01/01/04	\$116,792,365	\$112,846,159	(\$3,946,206)	103.5%	\$23,172,848	-17.0%
01/01/03	119,033,662	114,811,026	(4,222,637)	103.7%	22,572,703	-18.7%
01/01/01	123,291,025	92,278,891	(31,012,134)	133.6%	21,561,329	-143.8%
01/01/99	106,295,893	81,975,372	(24,320,521)	129.7%	17,694,603	-137.4%
01/01/97	78,665,972	69,141,005	(9,524,967)	113.8%	17,800,326	-53.5%
01/01/95	62,744,371	62,680,623	(63,748)	100.1%	16,138,898	-0.4%

Attach Copy of Current Approved Funding Schedule

EXHIBITS

Age/Service Distribution with Salary as of January 1, 2004

Attained Age	Average Salary	<5	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
< 20	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
20-24	16	0	0	0	0	0	0	0	0	0	16
	25,372	0	0	0	0	0	0	0	0	0	25,372
25-29	50	4	0	0	0	0	0	0	0	0	54
	27,518	46,314	0	0	0	0	0	0	0	0	28,910
30-34	47	18	0	0	0	0	0	0	0	0	65
	38,345	49,285	0	0	0	0	0	0	0	0	41,375
35-39	25	16	8	8	0	0	0	0	0	0	57
	34,822	43,995	47,453	42,609	0	0	0	0	0	0	40,262
40-44	31	12	10	19	4	1	0	0	0	0	77
	30,616	45,520	45,225	48,613	61,905	43,130	0	0	0	0	41,065
45-49	30	21	10	23	7	7	0	0	0	0	98
	28,373	42,126	40,998	57,147	62,890	63,291	0	0	0	0	44,321
50-54	32	16	8	8	7	7	7	1	0	0	86
	28,580	44,709	40,876	44,179	55,876	59,293	61,920	48,004	0	0	41,837
55-59	17	22	13	5	2	4	6	2	0	0	71
	32,689	29,130	35,611	48,916	63,563	44,033	57,255	50,186	0	0	37,342
60-64	10	12	8	8	5	4	1	2	0	0	50
	27,370	27,395	32,856	34,488	43,197	38,643	74,787	47,475	0	0	33,630
65-69	4	1	1	2	4	1	0	0	0	0	13
	39,468	59,807	8,118	30,402	34,780	49,219	0	0	0	0	36,534
70+	1	1	0	3	1	1	0	0	1	0	8
	12,670	6,552	0	27,084	32,223	32,517	0	0	145,076	0	38,786
Total Employees	263	123	58	76	30	25	14	5	1	0	595
Average Salary	31,062	40,313	39,703	47,301	53,115	52,546	60,840	48,665	145,076	0	38,946

Retiree Distribution as of January 1, 2004

Attained Age	Number of Employees			Total Payments		
	Male	Female	Total	Male	Female	Total
< 20	0	0	0	0	0	0
20-24	0	0	0	0	0	0
25-29	0	0	0	0	0	0
30-34	0	0	0	0	0	0
35-39	0	0	0	0	0	0
40-44	1	1	2	8,722	5,742	14,464
45-49	1	0	1	19,727	0	19,727
50-54	8	1	9	266,119	19,086	285,205
55-59	26	9	35	857,015	68,623	925,638
60-64	22	6	28	720,005	52,153	772,158
65-69	30	22	52	836,295	242,600	1,078,895
70-74	31	44	75	780,407	524,505	1,304,912
75-79	31	48	79	634,461	478,964	1,113,425
80-84	29	30	59	505,977	278,589	784,566
85-89	8	17	25	76,015	115,798	191,814
90-94	5	10	15	38,491	76,624	115,116
95-99	1	7	8	6,084	49,099	55,183
Total	193	195	388	4,749,318	1,911,785	6,661,103
Average (Age/Payment)	71	76.7	73.9	24,608	9,804	17,168
Frequency Percent	49.7	50.3	100	71.3	28.7	100

Disabled Retiree Distribution as of January 1, 2004

Attained Age	Number of Employees			Total Payments		
	Male	Female	Total	Male	Female	Total
< 20	0	0	0	0	0	0
20-24	0	0	0	0	0	0
25-29	0	0	0	0	0	0
30-34	0	0	0	0	0	0
35-39	0	0	0	0	0	0
40-44	1	0	1	23,786	0	23,786
45-49	0	0	0	0	0	0
50-54	7	0	7	200,644	0	200,644
55-59	6	0	6	204,859	0	204,859
60-64	3	0	3	72,767	0	72,767
65-69	2	0	2	59,197	0	59,197
70-74	2	0	2	35,152	0	35,152
75-79	4	1	5	79,119	18,243	97,363
80-84	0	0	0	0	0	0
85-89	0	0	0	0	0	0
90-94	0	0	0	0	0	0
95-99	0	0	0	0	0	0
Total	25	1	26	675,524	18,243	693,768
Average (Age/Payment)	61.9	78.8	62.5	27,021	18,243	26,683
Frequency Percent	96.2	3.8	100	97.4	2.6	100

EXHIBIT 4 - CASHFLOW FORECAST:

The following is a 30 year forecast of benefit payments net of state reimbursable COLA payments, Contribution Income and Investment Returns.

Plan Year Ending	Benefit Payments	Employee Contributions	Employer Contributions	Investment Returns	Net change in plan assets
2004	\$7,572	\$1,881	\$0	\$8,460	\$2,769
2005	7,744	1,991	0	8,663	2,910
2006	7,951	2,107	0	8,875	3,031
2007	8,156	2,229	1,347	9,145	4,565
2008	8,382	2,358	1,534	9,487	4,997
2009	8,601	2,494	1,572	9,857	5,322
2010	8,863	2,637	1,610	10,250	5,634
2011	9,086	2,789	1,649	10,667	6,019
2012	9,353	2,948	1,688	11,112	6,395
2013	9,593	3,117	1,727	11,587	6,838
2014	9,865	3,294	1,766	12,094	7,289
2015	10,194	3,481	1,805	12,633	7,725
2016	10,529	3,679	1,844	13,204	8,198
2017	10,898	3,887	1,883	13,810	8,682
2018	11,254	4,106	1,921	14,453	9,226
2019	11,619	4,337	1,960	15,137	9,815
2020	12,011	4,581	1,997	15,864	10,431
2021	12,423	4,838	2,035	16,637	11,087
2022	12,816	5,109	2,071	17,461	11,825
2023	13,168	5,394	2,107	18,341	12,674
2024	13,508	5,694	2,142	19,286	13,614
2025	13,857	6,011	2,176	20,302	14,632
2026	14,117	6,345	2,208	21,398	15,834
2027	14,351	6,696	2,239	22,585	17,169
2028	14,584	6,998	2,340	23,871	18,625
2029	14,784	7,313	2,445	25,267	20,241
2030	14,946	7,642	2,555	26,786	22,037
2031	15,007	7,986	2,670	28,443	24,092
2032	15,027	8,345	2,790	30,257	26,365
2033	15,532	8,720	2,916	32,224	28,328

amounts in thousands

EXHIBIT 5 – SUMMARY OF PLAN PROVISIONS:

This summary is prepared in accordance with Chapter 32 as of January 1, 2004, and does not take into account any subsequent changes.

1. Administration

Each of the 107 contributory retirement systems for public employees for the Commonwealth of Massachusetts are guided by the applicable provisions of Chapter 32 of the Massachusetts General Laws and other applicable statutes. Although these boards operate semi-independently, there is a uniform set of rules governing benefits, eligibility, contributions, financing, and accounting.

2. Participation

Participation is mandatory for all full-time employees whose employment commences prior to age 65. Eligibility with respect to part-time, professional, temporary, or intermittent employment is governed by the local board. Membership is optional for certain elected officials, State officials appointed by the Governor, and certain hospital interns.

There are four classes of membership as follows:

- (i) Group 1: Most general employees in State and local government
- (ii) Group 2: Certain specified hazardous duty positions
- (iii) Group 3: State police officers and inspectors
- (iv) Group 4: Local police officers, firefighters, and designated employees of the municipal light department.

For members in more than one group, participation will be proportional.

3. **Salary**

Salary is defined as gross regular compensation. Salary does not include bonuses, overtime, severance pay, unused sick leave credit, or other similar compensation.

4. **Member Contributions**

Member contributions vary depending upon date hired as follows:

<u>Date of Hire</u>	<u>Member Contribution Rate</u>
Prior to 1975	5.0% of Salary
1975 to 1983	7.0% of Salary
1984 to 1996	8.0% of Salary
1996 and Later plus	9.0% of Salary
1979 and Later	2.0% of Salary in excess of \$30,000

5. **Average Salary**

Average salary is used to determine a participant's benefit. It is defined as the average salary during the three consecutive-year period that produces the highest average. (Alternatively, if a greater amount results, it is the average rate of salary earned during the period or periods, whether or not consecutive, that constitutes the last three years preceding retirement.)

6. **Creditable Service**

In general, creditable service is awarded during the period in which a member contributes to the retirement system.

7. Service Retirement

a. Eligibility:

For an employee to be eligible for service retirement (also referred to as superannuation), one of the following conditions must be met:

- (i) completion of 20 years of service
- (ii) for an employee hired prior to January 1, 1978, attainment of age 55 as an active member
- (iii) for an employee hired on or after January 1, 1978, attainment of age 55 as an active member and completion of ten years of service
- (iv) if an employee is a State Police officer (Group 3), attainment of age 50

b. Benefit Amount:

The retirement allowance is determined as a product of the participant's Benefit Rate times Average Salary times Creditable Service, where Benefit Rate is determined from the following table:

<u>Age at Retirement</u>	<u>Percentage of Average Salary</u>		
	<u>Group 1</u>	<u>Group 2</u>	<u>Group 4</u>
65 or Over	.025	.025	.025
64	.024	.025	.025
63	.023	.025	.025
62	.022	.025	.025
61	.021	.025	.025
60	.020	.025	.025
59	.019	.024	.025
58	.018	.023	.025
57	.017	.022	.025
56	.016	.021	.025
55	.015	.020	.025
54	.014	.014	.024
53	.013	.013	.023
52	.012	.012	.022
51	.011	.011	.021
50	.010	.010	.020
49	.009	.009	.019
48	.008	.008	.018
47	.007	.007	.017
46	.006	.006	.016
45	.005	.005	.015
44	.004	.004	.004
43	.003	.003	.003
42	.002	.002	.002
41	.001	.001	.001

For Group 3 (State Police), the benefit is 50% of the participant's final year's rate of regular salary, plus an additional 1% for each year of service in excess of 20 years. In addition, for veterans (all groups) there is an additional benefit of \$15 per year for each year of service, up to a maximum of 20 years of service.

8. Deferred Vested Retirement

a. Eligibility:

A participant who has completed ten or more years of creditable service is eligible for a deferred vested retirement benefit. If termination is involuntary, the participant is vested after six years.

b. Benefit Amount:

The participant's accrued benefit is payable commencing at age 55, or may be deferred until later at the employee's option.

c. Refund of Contributions:

In lieu of the deferred pension benefit, a member may elect to receive a refund of their accumulated contributions. Members with ten or more years of service are entitled to 100% of the credited interest on their contributions. Members with five to ten years of service are entitled to 50% of the credited interest on their contributions. No credited interest is provided for members with less than five years of service.

9. Accidental Disability

a. Eligibility:

Participants are eligible for an accidental disability benefit, regardless of service or age, if they become permanently and totally incapacitated for further duty as a result of personal injury sustained while in the performance of duties.

b. Benefit Amount:

The accidental disability amount is 72% of annual salary plus \$450 per year for each child plus an additional annuity based upon accumulated Member Contributions with credited interest.

10. Ordinary Disability

a. Eligibility:

An ordinary disability occurs when a member becomes permanently and totally disabled due to sickness or injury that is not job related. In order to be eligible for an ordinary disability benefit, a member must have ten years of service (and be less than age 55).

b. Benefit Amount:

The ordinary disability amount is equal to the accrued retirement benefit as if the member were age 55. If the member was a veteran, the benefit is 50% of the member's final rate of Salary during the preceding 12 months, plus an annuity based upon accumulated Member Contributions plus credited interest. If the participant is over age 55, he will receive not less than the superannuation allowance to which he is entitled.

11. Survivor Benefits

a. Occupational Death:

The survivors of a member who dies due to an occupational injury will be entitled to a lump sum return of contributions plus a pension benefit equal to 72% of the participant's annual Salary.

b. Non-Occupational Death:

Upon the death of a member other than due to an occupational injury, the designated beneficiary will be entitled to a retirement benefit as if Option C had been elected with a minimum of \$250 per month to the surviving spouse, plus \$120 for the first child, plus \$90 for each additional child. If no beneficiary is designated and if the employee worked two years, and is married at least one year, the spouse may elect benefits. If there is no designated beneficiary or surviving spouse, then member contributions are returned. If there are dependent children but no surviving spouse, they may elect minimum survivor benefits of \$250 per month plus \$120 for the first child and \$90 for each additional child.

c. Refund of Contributions:

Upon the death of a member not entitled to survivor benefits, the beneficiary is entitled to a refund of all member contributions with interest.

12. Cost-of-Living Increases

In accordance with the adoption of Chapter 17 of the Acts of 1997, the granting of a cost-of-living adjustment will be determined by an annual vote by the Retirement Board. The amount of increase will be based upon the Consumer Price Index, limited to a maximum of 3.0%, beginning on July 1. All retirees, disabled retirees, and beneficiaries who have been receiving benefits payments for at least one year as of July 1 are eligible for the adjustment. The maximum amount of pension benefit subject to a COLA is \$12,000. All COLAs granted to members after 1981 and prior to July 1, 1998 are deemed to be an obligation of the State and are not the liability of the Retirement System.

13. Postretirement Death Benefits

Any benefits following the death of a member after retirement are based upon the form of benefit the participant elected at the time of retirement. There are three available forms as follows:

- (i) Option A – Life annuity
- (ii) Option B – Life annuity with death benefit equal to excess of member contributions plus credited interest to retirement over annuity benefit paid to member
- (iii) Option C – Life annuity with 66-2/3% of benefit continued after death of member to designated joint annuitant

EXHIBIT 6 – ACTUARIAL METHODS AND ASSUMPTIONS:

The actuarial cost method, factors, and assumptions used in determining cost estimates are presented below.

1. Member Data

The member data used in the determination of cost estimates consist of pertinent information with respect to the active, inactive, retired, and disabled members of the employer as supplied by the employer to the actuary.

2. Valuation Date

January 1, 2004.

3. Actuarial Cost Method

The costs of the Plan have been determined in accordance with the individual entry age normal actuarial cost method.

4. Rate of Investment Return

It is assumed that the assets of the fund will accumulate at a compound annual rate of 7.5% per annum.

5. Salary Scale

It is assumed that salaries including longevity will increase at a rate of 3.5% for 2004 and 4.0% thereafter.

6. Cost-of-Living Increases

Cost-of-living increases have been assumed to be 3.0% of the lesser of the pension amount and \$12,000 per year.

7. Value of Investments

Assets held by the fund are valued at market value as reported by the Public Employees' Retirement Administration Commission (PERAC). The actuarial value of assets is determined using a five-year smoothing of unrealized gains and losses.

8. Annual Rate of Withdrawal Prior to Retirement

Based on an analysis of experience, the assumed annual rates of withdrawal may best be illustrated by the following rates at the following ages:

<u>Service</u>	<u>General Employees</u>	<u>Police and Fire Employees</u>
0	0.1500	0.0150
10	0.0540	0.0150
20	0.0200	0.0000
30	0.0000	0.0000

9. Annual Rate of Mortality

It is assumed that both preretirement and postretirement mortality are represented by the RP-2000 Mortality Table for males and females. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years for all disabled members.

10. Service Retirement

Based on an analysis of experience, the assumed annual retirement rates are illustrated at the following ages:

<u>Age</u>	<u>Male General Employees</u>	<u>Female General Employees</u>	<u>Male and Female Police and Fire Employees</u>
50	0.0100	0.0150	0.02000
51	0.0100	0.0150	0.02000
52	0.0100	0.0200	0.02000
53	0.0100	0.0250	0.05000
54	0.0200	0.0250	0.07500
55	0.0200	0.0550	0.15000
56	0.0250	0.0650	0.10000
57	0.0250	0.0650	0.10000
58	0.0500	0.0650	0.10000
59	0.0650	0.0650	0.15000
60	0.1200	0.0500	0.20000
61	0.2000	0.1300	0.20000
62	0.3000	0.1500	0.25000
63	0.2500	0.1250	0.25000
64	0.2200	0.1800	0.30000
65	0.4000	0.1500	1.00000
66	0.2500	0.2000	1.00000
67	0.2500	0.2000	1.00000
68	0.3000	0.2500	1.00000
69	0.3000	0.2000	1.00000
70	1.0000	1.0000	1.00000

11. Annual Rate of Disability Prior to Retirement

Based on an analysis of experience, the assumed annual rates of disability may best be illustrated by the following probabilities at the following ages:

<u>Attained Age</u>	<u>General Employees</u>	<u>Police and Fire Employees</u>
20	0.0001	0.0010
30	0.0003	0.0030
40	0.0010	0.0030
50	0.0019	0.0125

In addition, it is assumed for the general employees that 45% of all disabilities are ordinary (55% are service connected). For police and fire employees, 10% of all disabilities are assumed to be ordinary (90% are service connected).

12. Family Composition

It is assumed that 80% of all members will be survived by a spouse and that females (males) are three years younger (older) than members.

13. Administrative Expenses

The normal cost is increased by an amount equal to the anticipated administrative expenses for the upcoming fiscal year. The amount for fiscal year 2004 is \$150,000 and is anticipated to increase at 4.5% per year.

EXHIBIT 7 – GLOSSARY OF TERMS:

This glossary summarizes the technical terms contained in this report.

1. **Actuarial Accrued Liability**

That portion of the Actuarial Present Value of plan benefits that is not provided for by future employer Normal Costs or employee contributions.

2. **Actuarial Assumptions**

Assumptions as to the occurrence of future events affecting the Retirement System such as:

- Rates of investment returns
- Increases in a member's salary
- Inflation
- The probability of mortality, turnover, disablement
- Retirement at each age and other relevant items

3. **Actuarial Cost Method**

A procedure for allocating the Actuarial Present Value of pension plan benefits between Normal Cost and Actuarial Accrued Liability.

4. **Actuarial Present Value**

The single sum amount required at the valuation date that is required to provide for anticipated future events based upon the terms of the plan and the Actuarial Assumptions.

5. **Forecast**

A projection of future benefit payments or contribution requirements based upon the terms of the plan, the current asset amounts, the Actuarial Assumptions, and additional assumptions as to the replacement of terminating employees with new employees.

6. Normal Cost

That portion of the Actuarial Present Value of future benefits that is assigned to the current year.

7. Unfunded Actuarial Accrued Liability

That portion of the Actuarial Accrued Liability that is not provided for by current actuarial value of assets.

8. Valuation Method

The method used to divide the cost of future benefits among the Actuarial Accrued Liability, the current year's Normal Costs, and future years' Normal Costs. The resulting current funding requirement is then determined as the current year's Normal Cost plus the payment necessary to amortize the Unfunded Actuarial Liability.

9. Vested Liability

That portion of the Actuarial Present Value of Accrued Benefits that a member would be entitled to if the member terminated employment with the employer as of the valuation date.

CERTIFICATION:

This report fairly represents the actuarial position of the Town of Wellesley Contributory Retirement System contributing as of January 1, 2004, in accordance with generally accepted actuarial principles applied consistently with the preceding valuation. In our opinion, the actuarial assumptions used to compute actuarial accrued liability and normal cost is reasonably related to plan experience and to reasonable expectations, and represents our best estimate of anticipated plan experience.

Mellon Human Resources and Investor Solutions

Daniel W. Sherman, ASA, MAAA
Enrolled Actuary No. 99-4086

September 2004

Breakouts

	<u>Total</u>	<u>Percent of Pay</u>	<u>Group 1 & 2</u>	<u>Percent of Pay</u>	<u>Group 4</u>	<u>Percent of Pay</u>
(1) Participants						
(a) Actives	595		479		116	
(b) Inactives	163		155		8	
(c) Retirees	388		272		116	
(d) Disabled Retirees	<u>26</u>		<u>10</u>		<u>16</u>	
(e) Total	1,172		916		256	
(2) Payroll of Active Participants	23,172,848		16,790,727		6,382,121	
(3) Normal Cost						
(a) Total Normal Cost	3,217,756	13.9%	2,111,928	12.6%	1,105,828	17.3%
(b) Expected Employee Contributions	1,881,232	8.1%	1,352,491	8.1%	528,741	8.3%
(c) Administrative Expenses	<u>150,000</u>	<u>0.6%</u>	<u>98,450</u>	<u>0.6%</u>	<u>51,550</u>	<u>0.8%</u>
(d) Net Employer Normal Cost (a) - (b)	1,336,524	5.8%	759,437	4.5%	577,087	9.0%
(4) Actuarial Accrued Liability	112,846,159		72,493,971		40,352,188	
(5) Assets*	<u>116,792,365</u>		<u>75,029,070</u>		<u>41,763,295</u>	
(6) Unfunded Actuarial Accrued Liability (4) - (5)	(\$3,946,206)		(\$2,535,098)		(\$1,411,107)	

* Allocation is based on the ratio of the Unfunded Actuarial Accrued Liability

Breakouts

	<u>Total</u>	<u>All Others</u>	<u>Housing</u>	<u>Water</u>	<u>Light</u>
(1) Participants					
(a) Actives	595	533	4	24	34
(b) Inactives	163	159	0	1	3
(c) Retirees	388	378	0	1	9
(d) Disabled Retirees	<u>26</u>	<u>26</u>	<u>0</u>	<u>0</u>	<u>0</u>
(e) Total	1,172	1,096	4	26	46
(2) Payroll of Active Participants	\$23,172,848	\$20,203,909	\$151,901	\$1,010,619	\$1,806,419
(3) Normal Cost					
(a) Total Normal Cost	3,217,756	2,758,244	17,231	102,949	339,332
(b) Expected Employee Contributions	1,881,232	1,644,892	12,956	80,272	143,112
(c) Administrative Expenses	<u>150,000</u>	<u>128,579</u>	<u>803</u>	<u>4,799</u>	<u>15,818</u>
(d) Net Employer Normal Cost (a) - (b)	1,336,524	1,113,352	4,275	22,677	196,220
(4) Actuarial Accrued Liability	112,846,159	101,927,303	253,591	2,548,330	8,116,935
(5) Assets*	<u>116,792,365</u>	<u>105,499,707</u>	<u>253,591</u>	<u>2,637,645</u>	<u>8,401,422</u>
(6) Unfunded Actuarial Accrued Liability (4) - (5)	(3,946,206)	(3,572,404)	0	(89,315)	(284,487)
(7) Amortizations*	(1,336,524)	(1,113,352)	(4,275)	(22,677)	(196,220)
(8) Total Required Employer Contributions (3d) + (7)	0	0	0	0	0
(9) Fiscal 2005 Cost	\$0	\$0	\$0	\$0	\$0
(10) Fiscal 2006 Cost	\$0	\$0	\$0	\$0	\$0
(11) Percentage of Total Cost	0.0%	\$0	\$0	\$0	\$0

* Allocation is based on the ratio of the Unfunded Actuarial Accrued Liability

Breakouts

GAS No. 25 Disclosure Information as of January 1, 2004

	Department 00 <u>Housing</u>	Department 37 <u>Water</u>	Department 38 <u>Light</u>	<u>All Others</u>	<u>Total</u>
(1) Actuarial Accrued Liability	253,591	2,548,330	8,116,935	101,927,303	112,846,159
(2) Actuarial value of assets*	<u>253,591</u>	<u>2,637,645</u>	<u>8,401,422</u>	<u>105,499,707</u>	<u>116,792,365</u>
(3) Unfunded Actuarial Accrued Liability (UAAL): (1) - (2)	0	(89,315)	(284,487)	(3,572,404)	(3,946,206)
(4) Funded ratio: (2)/(1)	100.0%	103.5%	103.5%	103.5%	103.5%
(5) Covered Payroll	\$151,901	\$1,010,619	\$1,806,419	\$20,203,909	\$23,172,848
(6) UAAL as a percentage of covered payroll [(1)-(2)]/(5)	(0.0)%	(8.8)%	(15.7)%	(17.7)%	(17.0)%

* Allocation is based on the ratio of the Unfunded Actuarial Accrued Liability